

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS INDEPENDENT TELEPHONE
ASSOCIATION

Petition for initiation and investigation of
the necessity of and the establishment of a
Universal Service Support Fund in accordance
With Section 13-301(d) of The Public Utilities
Act.

Docket No. 00-0233

Cons.

ILLINOIS COMMERCE COMMISSION
On Its Own Motion

Investigation into the necessity of and, if
Appropriate, the establishment of a Universal
Service Support Fund pursuant to Section
13-301(d) of the Public Utilities Act.

Docket No. 00-0335

DIRECT TESTIMONY

OF

LEIGH C. SICKINGER

ON BEHALF OF

GRAFTON TELEPHONE COMPANY

OFFICIAL FILE

IL C. C. DOWNEY 00-0233/0335

Dr. Alpha Co

Witness _____

Date 6/20/11 Reporter cad

April 20, 2001

1 **1. Q. Please state your name and business address.**

2
3 A. My name is Leigh C. Sickinger. My business address is 993 Clocktower Drive,
4 Suite A, Springfield, Illinois 62704.
5

6 **2. Q. By whom are you employed and in what capacity?**

7
8 A. I am a Certified Public Accountant and a partner in the firm of Kiesling
9 Associates LLP. In addition to our Springfield, Illinois office, the firm has offices
10 located in Wisconsin, Iowa and Colorado. The firm was founded in 1952 in
11 Madison, Wisconsin and is currently providing accounting, auditing, consulting
12 and other financial services to over 200 telecommunications and public utility
13 entities.
14

15 **3. Q. Please outline your educational background and business experience.**

16
17 A. I graduated from the University of Wisconsin-Madison in 1966 with Bachelor of
18 Business Administration degree with a major in accounting. Upon graduation, I
19 was employed by Kiesling Associates in the firm's Madison, Wisconsin office. I
20 was involved in providing accounting, auditing, financing and other financial
21 services including testifying before the Wisconsin Public Service Commission as
22 an expert witness on behalf of our Wisconsin clients for construction authority,
23 financing, rate increases and other matters.
24

25 In June of 1978, I transferred to the Springfield office as Partner-in-Charge and
26 remained in that position through December 31, 2000. During this time and up to
27 the current date, I have been involved in providing auditing, accounting,

1 consulting, financing and other services to the Firm's Illinois clients including
2 testifying before the Illinois Commerce Commission on numerous occasions as an
3 expert witness regarding financing, rate matters, and other financial matters. In
4 addition, I was the principal compiler of the draft of the small companies cost
5 allocation manual, which was submitted by the Illinois Telephone Association to
6 the Illinois Commerce Commission's staff for review, revision, and finalization
7 prior to the subsequent issuance of an order by this Commission establishing 83
8 Ill. Adm. Code Part 712, Cost Allocation for Small Local Exchange Carriers.

9
10 **4. Q. Have you previously presented testimony before regulatory commissions?**
11

12 A. Yes. As mentioned above, I have presented testimony before the Wisconsin Public
13 Service Commission and Illinois Commerce Commission on numerous occasions.
14

15 **5. Q. What is your relationship with Grafton Telephone Company?**
16

17 A. I am an independent CPA providing auditing, accounting, income tax, financial
18 statement preparation, consulting and other related accounting and regulatory
19 services to the Company.
20

21 **6. Q. What is the purpose of your testimony?**
22

23 A. The purpose of my testimony is to present the results of an earnings analysis for
24 Grafton Telephone Company. This analysis is being presented to determine whether
25 the Company qualifies for state universal service support based on its rate of return.
26
27

1 **7. Q. Does your testimony include any exhibits, and were these prepared by you or**
2 **under your direction?**

3
4 A. Yes, my testimony includes Grafton Telephone Company Exhibit 1, Section 1.01 and
5 Grafton Telephone Company Exhibit 2 which I prepared or was prepared under my
6 supervision.

7
8 Schedule 1.01 is the Company's earnings analysis.

9
10 Exhibit 2, Schedule 2.01 sets forth information regarding the adjustments that appear
11 in the Adjustment column of Exhibit 1, Schedule 1.01, Page 1 of 3.

12
13 Exhibit 2, Schedule 2.02 provides the cost information for the new switching
14 equipment from Nortel Networks that was under construction at December 31, 2000.

15
16 **8. Q. What is the source of the amounts used in the Company's earnings analysis?**

17
18 A. Grafton Telephone Company Exhibit 1, Schedule 1.01, Page 1 of 3 attached to my
19 testimony shows the results of the Company's earnings analysis. The sources of the
20 amounts used in this analysis are from the Annual Report of Grafton Telephone
21 Company to the Illinois Commerce Commission for the Calendar Year Ended
22 December 31, 2000 and from the Company's underlying records including an ICC
23 Trial Balance Report December 31, 2000 generated from our accounting software.
24 The Company has provided a copy of the ICC Trial Balance Report December 31,
25 2000 to the Commission Staff in support of the Company's Exhibit 1, Schedule 1.01.

26
27 **9. Q. Please summarize the results of the Company's earnings analysis shown on**
28 **Grafton Telephone Company Exhibit 1, Schedule 1.01, Page 1 of 3, as it relates**

1 **to the intrastate universal service fund proposed to be established at the**
2 **conclusion of this proceeding.**
3

4 A. The analysis shows that the Company has a return on rate base, or rate of return
5 (ROR) of 6.01%. This is shown on line 23. The computations shown on lines 24
6 through 35 indicate that the Company has an ROR funding deficiency including
7 income taxes of \$223,441. This amount is shown on line 28. This means the
8 Company has a need for state universal service support based on the Company's
9 earnings level in the amount of \$223,441. These results reflect an adjustment to total
10 operating revenues by subtracting Illinois high cost funds received by the Company
11 during 2000 and adjustments to net regulated plant and deferred income taxes.
12

13 **10. Q. Why are total year 2000 operating revenues shown on line 14 of Schedule**
14 **1.01 reduced by an amount for Illinois high cost funds received during 2000**
15 **on line 15?**
16

17 A. The \$208,440 amount on line 15 is the total support Grafton Telephone Company
18 received from the Illinois Universal Service Fund and DEM Fund for the year 2000.
19 Since these funds expire on September 30, 2001, the amounts the Company received
20 from these funds during 2000 must be subtracted from operating revenues for
21 purposes of this presentation.
22

23 **11. Q. Please explain the adjustments you have made in the earnings analysis shown on**
24 **line 1 of Schedule 1.01 increasing net regulated plant in the amount of \$222,297?**
25

26 A. \$16,100 of this amount represents RTB Class B stock. This is Standard Adjustment
27 #1 covered by testimony presented by Robert C. Schoonmaker in this proceeding.

1 The amount is reflected in Account 1402.10 as shown on the Company's trial balance
2 presented by the Company to the Staff of the Illinois Commerce Commission in this
3 proceeding.
4

5 The remaining adjustment of \$206,197 is the additional cost of new switching
6 equipment that was under construction at December 31, 2000 and has been placed in
7 service during 2001. This is Standard Adjustment #4 covered in Mr. Schoonmaker's
8 testimony. In accordance with requirements for supporting this standard adjustment,
9 the Company is providing supporting information, which is attached to this testimony
10 as Exhibit 2, Sections 2.01 and 2.02.
11

12 As the switching equipment being replaced is fully depreciated at December 31,
13 2000, no additional adjustment is necessary to net plant in service for the purposes of
14 this exhibit as the same amount would be subtracted from both plant in service and
15 accumulated depreciation resulting in no change to the net plant in service amount.

16
17 **12. Q. Please explain the adjustment that you have made to line 4, ADIT – Regulated**
18 **Plant?**
19

20 A. Accumulated deferred income taxes generally are a liability and have routinely been
21 deducted by regulatory commissions for ratemaking purposes as a source of cost free
22 funds. This situation results from recorded book depreciation being less than
23 allowable tax depreciation or recovery. There are instances, however, as in this case,
24 where Grafton Telephone Company's recorded book depreciation exceeds allowable
25 tax depreciation resulting in a deferred tax asset instead of a deferred tax liability. As
26 this amount of income tax has been paid, it is not a cost free source of funds and
27 needs to be added to the rate base for purposes of this exhibit.
28

1 **13. Q. Does the Company's ICC Trial Balance Report December 31, 2000 and Form**
2 **23A reflect true and actual results?**

3
4 A. As stated in our Accountant's Report that is included in Form 23A as filed with
5 the Illinois Commerce Commission for the year 2000, we have prepared the
6 financial statements and supplementary information included in the prescribed
7 form, Illinois Commerce Commission Form 23A in accordance with Standards for
8 Accounting and Review Services issued by the American Institute of Certified
9 Public Accountants. We compiled these financial statements from financial
10 statements for the same period, which we previously audited as indicated in our
11 Report dated February 1, 2001. The Company's financial statements and records
12 are in accordance with Generally Accepted Accounting Principles (GAAP) and 83
13 Ill. Adm. Code Part 710, Uniform Accounts for Telecommunications Carriers.

14
15 **14. Q. Are you aware of any other known and measurable changes to the Company's**
16 **actual calendar year 2000 results that would impact the earnings analysis?**

17
18 A. No. I am not aware of any other changes that are known and measurable.

19
20 **15. Q. Please summarize your testimony?**

21
22 A. The earnings analysis for Grafton Telephone Company shows a ROR Funding
23 Deficiency based on actual results for the year ended December 31, 2000 plus known
24 and measurable changes. The amount of this deficiency is \$223,441. Based on the
25 results of this earnings analysis, Grafton Telephone Company should receive annual
26 state universal service support in the amount of \$223,441.

1 **16. Q. Does that conclude your Direct Testimony?**
2

3 A. Yes.
4

Grafton Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000

<u>line</u>	<u>Description</u>	<u>Source</u>	<u>Amount</u>	<u>Adjustment</u>	<u>Adjusted Amount</u>
1	Net Regulated Plant	Form 23A, P 8, Net Plant	\$ 2,226,421	\$ 222,297	\$ 2,448,718
2	Materials and Supplies Inventory	Page 2, 13-Month Average	48,525		48,525
3	Customer Deposits	Form 23A, P 8, 4040	1,314	-	1,314
4	ADIT - Regulated Plant	Form 23A, P 8, 4100 + 4340	(1,233)	(55,616)	(56,849)
5	Rate Base before Working Capital	line 1 + line 2 - line 3 - line 4			2,552,778
6	Working Capital Requirement				
7	Total Operating Expenses	Form 23A, P 14, Total	906,379	-	906,379
8	Less: Depreciation Expense	Form 23A, P 13, 6560	287,257	-	287,257
9	Total WC Operating Expense	line 7 - line 8	619,122	-	619,122
10	WC OE Requirement	line 9 * 45 / 360			77,390
11	Commission-Ordered Cash Balance Requirement		-	-	-
12	Total Working Capital Requirement	line 10 + line 11			77,390
13	Total Rate Base	line 5 + line 12			2,630,168
14	Total Operating Revenues	Form 23A, P 11, Total	1,384,041	-	1,384,041
15	Less: Illinois High Cost Fund		208,440	-	208,440
16	Net Operating Revenues	line 14 - line 15	1,175,601	-	1,175,601
17	Total Operating Expenses	Form 23A, P 14, Total	906,379	-	906,379
18	Other Operating Inc and Exp - Net	Form 23A, P 15, 7100	-	-	-
19	Other Operating Taxes	Form 23A, P 15, 7240	11,370	-	11,370
20	Net Op Inc before Income Taxes	line 16 - lines 17, 18, & 19	257,852	-	257,852
21	Income Tax Expense	line 34			99,889
22	Net Operating Income	line 20 - line 21			157,963
23	Return on Rate Base	line 22 / line 13			6.01%
24	After-tax Cost of Capital				11.21%
25	Target Net Operating Income	line 24 * line 13			294,842
26	Adj to Achieve Target Return on RB	line 25 - line 22			136,879
27	Gross Revenue Conversion Factor	line 35			1.6324
28	ROR Funding Deficiency Including Inc Taxes	line 26 * line 27			223,441
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	line 20			257,852
31	Illinois Inc & Rep Tax Expense	line 30 * 7.18%			18,514
32	Net Op Inc before Fed Inc Tax	line 30 - line 31			239,338
33	Federal Income Tax Expense	line 32 * 34.00%			81,375
34	Total Imputed Income Tax Expense	line 31 + line 33			99,889
35	Gross Revenue Conversion Factor	1 / ((1 - .0718) * (1 - .34))			1.6324

Grafton Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Material & Supplies Worksheet and Other Information

Line #

1	December-99	\$47,023
2	January-00	\$52,603
3	February-00	\$52,603
4	March-00	\$54,680
5	April-00	\$55,201
6	May-00	\$55,201
7	June-00	\$41,474
8	July-00	\$42,926
9	August-00	\$47,338
10	September-00	\$47,338
11	October-00	\$47,338
12	November-00	\$47,338
13	December-00	\$39,758
14	13 Month Average	\$48,525

Sale/Lease Back Arrangement

☒

The company does not have any sale(s)/lease back arrangement.

☐

The company does have sale(s)/lease back arrangement and has provided additional information to staff.

Lease Agreement with Affiliates

☒

The company does not have any lease agreements with affiliates.

☐

The company does have lease agreements with affiliates and has provided additional information to staff.

Trial Balances

The Company has provided a copy of its 12/31/2000 trial balance in support of the attached exhibits.

Grafton Telephone Company
Illinois Universal Service Funding Calculation
Based upon ICC Form 23A Report Data for December 31, 2000
Operating Revenues By Category

<u>Line #</u>		<u>Source</u>	<u>Amount</u>
		Form 23A, P 10, Total Local	
1	Local Revenues	Network Service Revenues	\$ 100,241
2	State Subscriber Line Charges	Trial Balance 12/31/00	\$ 126,880
3	State Access Revenues	Trial Balance 12/31/00	\$ 192,567
4	State High Cost Support	Exhibit X, Line 15	\$ 208,440
5	State Special Access Revenues	Trial Balance 12/31/00	\$ 23,466
6	Total State Access & Local Revenues	Sum (Ln 1 - 5)	\$ 651,594
7	Federal Subscriber Lines Charges	Trial Balance 12/31/00	\$ 40,272
8	Federal Access Revenues	Trial Balance 12/31/00	\$ 230,674
9	Federal High Cost Support	Trial Balance 12/31/00	\$ 364,628
10	Federal Special Access Revenues	Trial Balance 12/31/00	\$ 15,584
11	Total Federal Access Revenues	Sum (Ln 7 - 10)	\$ 651,158
12	Misc Revenues	Trial Balance 12/31/00	\$ 81,289
13	Total Operating Revenues	Ln 6 + Ln 11 + Ln 12	<u>\$ 1,384,041</u>

Grafton Telephone Company
Summary of Adjustments

Adjustment 1	Dr.	Cr.
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RTB Stock	16,100	
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To record RTB Class B stock in rate base.

Adjustment 4

To record Nortel Networks contract dated June 6, 2000 for switching equipment replacement.

Contract amount - detail attached	\$458,929	
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Amount paid during 2000 and included		
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in account 2003 at 12/31/2000	<u>252,732</u>	206,197
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Other Adjustments

Deferred Tax Asset	55,616	
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To reverse out the deferred tax amount in account 4340 relating to investment tax credits that is eliminated by the debit balance in account 4360 and to record the deferred tax asset due to book depreciation being greater than tax depreciation. Amounts are recorded in accounts 1410.50 and 1410.55 in the detailed trial balance and are included in the amount shown for account 1410 on page 5 of the 2000 Annual Report.

Grafton Telephone Company

**NORTEL
NETWORKS**

Change Order Adjustment Authorization Form

Customer GRAFTON TELEPHONE COMPANY	Change Order Number 1	Revision Number 1
Site Name and/or CLI GRAFTON, IL	Change Order Date SEPTEMBER 11, 2000	Change Order Type CI Reconciliation
C.O.E.O. Number EH7185	Purchase Order and/or Work Order Number PAGE 15	Purchase Order and/or Work Order Date JUNE 6, 2000

Adjustment			
	Current Value	Delta Value	Adjusted Value
NORTEL EQUIPMENT	\$109,986	11,392	\$121,378.00
VENDOR EQUIPMENT	90,376	0	90,376
NORTEL SPARES	21,789*	-3,625	18,164
FIRMWARE	9,332*	0	9,332
VENDOR SOFTWARE RTU FEE	0	0	0
APPLICATION SOFTWARE RTU FEE	76,680*	9,699	86,379
DOCUMENTATION	13,076*	0	13,076
ENGINEERING	45,711*	0	45,711
INSTALLATION	70,383	4,130	74,513
TOTAL	\$437,333.00	21,596	\$458,929.00
Amounts paid during Nov. 2000	236,575.53	+ 16,156.29	252,731.81
			206,197.19

Nortel Networks Rep. <i>John Hultgren</i> Director, IAC Sales 9/11/00 COPY		Customer GRAFTON TELEPHONE COMPANY	
		Please sign and return original	
		Authorizing signature	Date
		Title	
Form: 01 Issue: 01		Change Order (CO) Process for DMS-100 and IAC OMD-400.A31	